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## Profit or Growth: Can Singapore's Building and Construction Industry Attain Both?

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*Singapore's building and construction industry accounts for about 4% of gross domestic product. Its importance is underscored by projections of between S\$27 and S\$32 billion construction demand estimated for the sector in 2008. Recording a year-on-year growth of 17% in the first half of 2008, the continued success of the sector hinges on there being high calibre leaders who have the vision and capability to address the many challenges and steer the industry forward, according to John Keung, CEO of the Building and Construction Authority (BCA) of Singapore.*

*Working closely with BCA, the Singapore Management University (SMU) recently launched a SMU-BCA advanced management programme to develop strategic management capabilities of senior executives in the sector. The three-month programme consists of nine modules taught by SMU faculty and industry professionals. Using real case examples across the industry, it seeks to better prepare industry players to face new issues and global challenges. Fifty percent of the course fee is subsidised by Singapore's Workforce Development Agency (WDA).*

*Following the launch, six panelists from various companies participated in a discussion on "Profit or Growth – How to Attain Both", moderated by SMU's dean of executive and professional education, Annie Koh. The participants were: Roland Ng, president and group CEO of Tat Hong Holdings; CK Ow, executive chairman of Stamford Land Corporation; Philip Ng, CEO of Far East Organization; Isabella W. K. Loh, CEO/VP, Shell Marine Products; Chong Siak Ching, president and CEO of Ascendas, and; John Keung, CEO of BCA.*

*Edited excerpts from the discussion are included below.*

**Koh:** From our research, the statistics show that a company cannot grow by double digits for more than three years. I would like the panelists to tell us what the secret of sustainability is in growing the business.

**Roland Ng:** From 2002 onwards, our growth for six years was around 100%, but we still maintained [growth] at 50% thereafter. In our line of the construction business, we are very niche in the equipment supply sector as we are purely into crane supply. By being focused and paying close attention to market factors and government policies, we can anticipate trends affecting our market and build a sustainable business.

**Chong:** Every business has its own formula for success. Looking at Ascendas, we have to find a point of differentiation. We want customers to choose our property not because of price but because of other factors. In our case, we develop industrial properties, but the difference in what we do is to offer a lifestyle to our customers. For example, in our property in Chennai, India, we offer the best food we can find. The first McDonald's and KFC in Chennai are located in our park.

**Koh:** Do you have 100% occupancy?

**Chong:** Yes, but that is not a good thing for a developer. We always want extra space for customers to expand. We have to anticipate needs and demand so there is always room to grow. We are ready to accommodate them or we lose them.

**Koh:** CK, what are your views?

**Ow:** When I started, I was in a tug and barge sector that was going downhill. From that base more than 40 years ago, we subsequently got involved in higher value business as a shipping agency. As a next logical step, I become a ship owner. Until China and India opened up about five years ago, however, shipping was in very bad state. It is a business with a 20 to 30 year life span, and we have got to make money quickly while riding the market cycles.

Subsequently, I decided on an IPO which was very successful, providing the money to diversify into properties, hotels and, recently, apartments. I calculated that I gave shareholders 18% return per annum from my IPO 19 years ago. So sustainability is a word that I'd associate with having to face constant challenges.

**Philip Ng:** To me, the word "sustainability" is a bit of a luxury. For us in the property development business, we don't think of sustainable growth year-on-year but more cycle-to-cycle. Property developers operating in a single primary market are subject to the vagaries of the business cycle. The business of real estate is very cyclical in nature, and we would want to be able to weather the downturn and be there for the next upturn. That's primary in our minds.

Many developers are now beginning to look at two or three different markets to diversify one's investments in such a

way that, when one market is down, there could be two others that are up. That gives one sustainability of growth, to be able to report growth on a year-on-year basis. Now that's still a very new phenomenon. Even so, the world economy is getting much more interconnected, and it actually makes it much more difficult to diversify one's markets in a manner that we all think of.

Another aspect to sustainable growth and development has got to do with the new sensibilities of operating in an environment that is much more environmentally conscious, and being ecologically and socially responsible. How businesses respond to this new aspect of sustainability depends on the phase of development we are all in. At the end of the day, businesses do have to be profitable in order to be able to launch sustainable programmes. Profit is therefore the fuel for sustaining growth.

**Koh:** Isabella, what has Shell done in terms of sustainability?

**Loh:** From Shell's perspective, we look at ways to achieve an equilibrium between people, planet and profits -- the 3Ps. Sustainable development involves having a mindset that focuses on delivering benefits and reducing impact. We are also into long-term scenario planning, say over the next 20 to 25 years. This approach provides focus and direction and allows us to anticipate issues and to navigate ahead. Sometimes the situation may change radically, for example, the swing in crude oil prices and the rise of biofuels from food crops. When this happens, we apply our Shell business principles and continue to work towards striking a balance among the 3Ps.

**Koh:** John, what are the main challenges in the building and construction industry?

**Keung:** Well, [there are] three key ones. First is leadership, dynamic, strong leadership, to drive the company and the industry. I'm happy today to launch this advanced management programme to help nurture a group of strong leaders for the industry. Second is differentiation, creating a niche, how to differentiate Singapore from others. Today, the Singapore brand has value. But quality is not the only thing. Going forward we have to show how we can make further progress without harming the environment, such as getting ourselves into the design and development of green buildings for the tropics.

Third is the longer term viability of the industry. How can the industry ride the cycles? One way is to build a stronger external wing. We have been developing the potential of other markets for the past 3 to 5 years, and we have had some success. In the last few years, we have been able to help our industry secure more than S\$2 billion worth of projects each year from markets such as China, India and the Middle East.

**Koh:** How do you know if your bets are right? How much can be planned, and how much is luck?

**Chong:** Yes, luck plays a part in business. In our case, risk management is important. Every organisation has its own risk appetite, and must establish its investment parameters accordingly. Take Iraq for example. It is a high risk market, and so would be the expected returns.

**Koh:** CK, how do you know your move upstream will lead to benefits?

**Ow:** When I was in the service industry, it wasn't a capital intensive business. But it was also the case when we subsequently went upstream into the shipping agency and management sector. We were then the biggest shipping agency working with Mitsui OSK Line. However, I felt that sort of business, mere services, could not be sustained. Hence we became ship owners.

How do I know it will be profitable? If you look at the formula then, I had the majority of vessels locked into long term charters of more than 10 or even 15 years. There is not a lot of profit margin in long-term charters, but 15 years later the ships are paid for. That's how I juggle with issues of risk taking.

How do I know a hotel is going to be profitable? A typical hotel I'd buy is one that has got income stream, yield. Usually I buy at distress prices, say at 50 cents to the dollar, when the previous owner has come to grief and the property comes with a yield. My job is to maximise the yield.

**Koh:** Do you need to own things in order to achieve sustainability? After all, it's been said that being asset light is the way to go.

**Philip Ng:** When CK [Ow] was talking about how he made his foray into real estate, that's actually how developers and owners of property would have to think -- how not to be in a position where your assets are put into a forced sale position, and where you have not been prudent and you cannot ride through the cycle. In every step of the way there will be risk. If you don't invest and operate right, you are not going to deliver the yields that you need, and you can't service your debt.

Today, with real estate being a very big ticket game, you have to manage risk. You must think about how much debt you would like to have. As [Chong] Siak Ching says, every company has a different measure of risk and different risk appetites.


We are all very conditioned to be as low gear as possible. We have to think in terms of a worst case scenario for


every new project that we go into -- what would be the downside and what can we sell it for. It's very difficult to think of sustainable growth on a year-on-year basis; it's really period-on-period. There will be turns of the cycle, very much like what we've witnessed from last year to this year. Last year, things were very rosy for Singapore, and prices were going up exponentially. Then the sub-prime crisis started and nobody knew how it would impact on America and on all of us in Asia.

Fortunately, developers are quite well capitalised, and they have also sold enough inventory in the last couple of years to sustain themselves. But if this is a very protracted downturn for two or three years, you would need an income to service the debt at the end of the day. So risk management is very much in our minds. I think, perhaps for this reason, that some developers feel being asset light is the way to do it.

In fact, the big development companies are all in Asia -- in Hong Kong, Singapore, Japan. American and European developers do not hang on to their assets. They build, develop and sell to REITS, insurance companies or retail markets. Therefore, development has become a different game in the west. Whether culturally we are going to adapt to this new model I don't know because some of us just love property.

**Chong:** Eventually somebody needs to own the property. A REIT is structured in a way where you are able to securitise your income stream. Your capital cost becomes very low because you have a very wide base of investors. So the REIT route is one option if you are looking at being asset light.

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